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Chile

Exporter Guide

Annual

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Report Highlights:
This report provides practical tips to U.S. exporters of consumer-oriented foods/beverages on how to do business in Chile. It provides a brief overview of the food retail, food service, and food processing sectors.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Santiago [CI1]
[CI]

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Executive Summary

Chile's economy is driven by exports, concentrated in primary products and processed natural resources (principally copper, fresh fruit, forestry and fishery products). Chile is enjoying strong economic growth with strong copper prices and a record trade surplus of $9 billion in 2004. Chile's Gross Domestic Product (GDP) exceeded projections and grew 6.1% percent in 2004, the highest rate in seven years. Growth projections for 2005 are 5.9%, making Chile one of the most attractive emerging-market investment locations in 2005-2006. Having made an early start on economic liberalization and structural reform, Chile will progress even more on trade liberalization, fiscal modernization and infrastructure development

Chile's GDP rose to over $94 billion, with per capita GDP approaching $6,000. According to the World Bank's PPP methodology, Chileans' purchasing power per capita increased to $11,245 in 2004, almost 9 percent over 2003. The effect of dramatically improved earnings at export-oriented firms appears to have rippled throughout the economy in 2004, igniting a broader based boom in both local consumption and investment. Domestic demand increased 7.9% and private consumption increased 5.6% in 2004. Consumer-price rises should remain subdued, owing to monetary tightening, a strong currency and intense retail competition, which will limit the transfer of production cost increases to consumers. The inflation rate for 2005 is forecast to approach 2.4%. Unemployment likely will remain around 8 percent. In 2004, there was an increase in both the quantity (67,000 new jobs) and the quality of newly created jobs. Wages generally have remained ahead of inflation, so the national standard of living has continued to rise. Chile's domestic savings rate of 22 percent of GDP remains one of the highest in the region.

Chilean presidential elections in December 2005 appear to pose few economic risks given the consensus among the leading candidates regarding Chile's economic model.
Chile continues to position itself as the platform for regional investment. It has a highly efficient and accountable business culture and its economic prospects appear excellent for the coming year. Unless global trends shift dramatically, Chile will continue profiting handsomely from high commodity prices and healthy growth in its increasingly diversified export markets.

Based on size, market growth rate, and the U.S. competitive position in the market, the following products have the greatest potential in Chile: ingredients for feed, processed meat, and processed foods/bakery industries (e.g. diary, soy, meat and poultry by-products, etc), seeds, high value wood products for the furniture industry and oak for wine barrels, as well as pet food and snack foods/high value processed foods. Competition from Mercosur suppliers remains fierce for grains, soybean products and pet food, while domestic and European imports present the greatest challenge for U.S. processed foods.

Food and beverage purchases are the largest single household expenditure.

Average Monthly Expenditures per Household in Santiago, 2004*

Item	Dollars	Percent
Food and beverages	312	27.4
Transport and communications	255	19.7
Housing and utilities	162	14.2

Home maintenance and furnishings	110	9.6
Clothing	108	9.4
Education and school fees	66	5.7
Health care	66	5.7
Other goods and services	95	8.3
Total	1,144	100.00

Source: National Institute of Statistics
* Projection based on 2002 Census

II. Exporter Business Tips

- An importer/agent is becoming a necessity. Most supermarket chains prefer to buy new or less well known products from importer/distributors.
- U.S. products can fill gaps in the local market if supported on the ground. Intensive sampling, in conjunction with prominent shelf space in supermarkets, are key to successfully launching imported products.
- Agent/importers must also have the ability to store imported products until they are tested, and released for sale and distribution by health officials of the region.
- While regulations are relatively transparent, changes are not widely advertised. Therefore the exporter or his/her representative needs to monitor the Diario Oficial, where the Ministry of Health and the Ministry of Agriculture periodically publish changes, and/or consult the websites of the Ministry of Agriculture (www.sag.gob.cl) and the Ministry of Health (www.sesma.cl).
- For labeling and certification requirements for meat, poultry, dairy and fresh produce consult the U.S. Embassy Santiago web page at www.usembassy.cl under "Food and Agriculture".
- Spanish labeling is a must.
- Consumers are very brand oriented, but major supermarket chains are introducing private labels.
- Sampling is usually required to introduce new products successfully.
- Middle and upper class consumers generally steer clear of spicy, "ethnic" foods.
- Consumers are not overly concerned about the health aspects of fat, cholesterol, and extensive processing. At the same time, noting the health benefits of a product can be helpful in marketing a product.
- Consumers relate expired shelf life to spoilage, which is one of their major concerns when shopping.

The table below identifies U.S. supplier strengths and market opportunities (**Advantages**) as well as U.S. supplier weaknesses and competitive threats (**Challenges**).

Advantages	Challenges
The U.S. can produce many niche products at low cost due to economies of scale.	The single most important factor influencing purchasing decisions is price.
Domestic transportation and communication systems are efficient in Chile.	Chile produces a wide range of high quality inexpensive inputs, so imports tend to be more expensive vis a vis domestic products.

Regulations are transparent and enforcement is generally free of corruption.	Strict animal and plant quarantine regulations prohibit the import of some products and all products have to be approved by the Regional office of the Ministry of Heath where the product enters, as Chile's labeling requirements vary from the US.
Middle and upper class shoppers are much more apt to purchase prepared meals at supermarkets.	The most common worry of consumers is food spoilage; in particular, they are concerned about the expiration of shelf life.
25% of the most affluent shoppers look for variety and a wide selection of products.	U.S. products have no special cultural appeal compared to products from other countries.
The market for imported consumer foods is concentrated in Santiago, where 40% of the country's population lives.	Importers seldom have the ability to market full container shipments of consumer food products from the United States.
Supermarket chains are seeking suppliers of well-recognized, high sales volume products to expand their line of private label items.	Retail power is concentrated in three chains and they demand considerable marketing support for branded products.

III. Market Sector Structure and Trends

Food Processing Sector

Chile has a very competitive food manufacturing/processing sector that supplies a wide range of products, including: poultry and pork products, dairy products, seafood, processed fruits and vegetables, cookies, chocolates, candies, pasta, powdered beverages, soft drinks, bakery products, canned peaches, marmalades, tomato sauces and wine. Chile has worked steadily to improve food safety standards, and has become a leader in this area in the South American region.

The Chilean food processing industry is growing and the latest Free Trade Agreements (FTA) with the European Union, United States and Korea, as well as future agreements with China, India, New Zealand/Singapore and Japan are expected to provide further impetus to this sector.

The principal constraint in the market is that currently most low cost imports for this sector come from Mercosur countries (Argentina, Uruguay, Paraguay and Brazil). However, we believe there is a need for US high tech food ingredients. Also, we believe the US-Chile FTA will open up new markets for previously prohibited input imports of meat, fresh fruits and dairy. In general, opportunities exist for food ingredients for the following processed food categories: dairy, bakery products, snacks, processed meats, etc. In addition to the domestic food processors, who dominate the market, there are several foreign food processors who have invested in Chile to make products specifically for sale in Chile and in the region. Key food processing companies include: FEPACH members (frozen, canned, dried products and juice concentrate products), Nestle, Unilever, Empresas Carozzi S.A., Lucchetti S.A., Soprole, Loncoleche, Parmalat, Colun, Arcor - Dos en Uno, Alimentos Wasil S.A., Nutrexpa Chile S.A., Watt's Alimentos S.A., Evercrisp Snack Productos de Chile S.A., Ideal S.A., Ariztia and Super

Pollo.

There is a big interest in U.S. pork meat as an ingredient for sausage producers, since local pork production is mainly under one big company with 60% of the local production. Local sausage producers are looking for other suppliers of pork meat since, this dominant market situation creates a difficult price situation. Estimates for imports of pork ingredients range from $3-7 million. Once the U.S.-Chile poultry equivalency agreement is concluded, imports of these inputs are expected to take off in 2006.

Other advantages for U.S. food ingredients in Chile are:
- certain companies have corporate requirements to purchase U.S. inputs;
- shipping from the U.S. is cheaper and quicker than from Europe;
- the rapidly dropping U.S. Dollar exchange rate has made U.S. inputs more competitive;
- U.S. food inputs are know for their consistent high quality; and
- the public perceives these products to have met the highest sanitary standards.

The following foreign food ingredient imports are in the highest demand: powdered milk, whey, mozzarella cheese, other cheeses, durum wheat, corn starch, wheat gluten, animal fat, fish and olive oils, vegetable fats and oils, glucose, other sugars, cocoa powder, essences, protein concentrates and emulsifier agents, pork, turkey and chicken.

Hotel, Restaurant and Tourist Industry

Although no official government or industry sales figures exist for any for the HRI sectors, the Institutional market is the largest of the three in terms of food sales, followed closely by the restaurant sub-sector and fairly distantly by the hotel sub-sector.

We estimate annual restaurant sales in Santiago at $300 million, projecting to maybe $500 million nationwide. Around 30 percent of this is food and beverage costs, and 10 to 20 percent of this food and beverage cost component, i.e. $15 million to $30 million, is estimated to be imported foods. The average food/beverage ratio of restaurant sales in Chile is 60 percent food to 40 percent beverages.

Total restaurant sales are fairly flat as shrinking sales and margins, especially for lower-echelon restaurants, compensate for the growth in the number of restaurants.

The institutional market, on the other hand, is a $500 million per year market of subcontracted food services that has grown strongly lately (10-15 percent per year). Mines and educational institutions are the leaders in offering meal benefits. However, reportedly 80 percent of businesses provide their employees in-house food services or vouchers to eat at local restaurants and sandwich shops. Approximately 50% of the raw materials are imported for these meals, with the bulk of these imports coming from Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay). Currently, there are three giants dominating this sector (Compass, Sodexho and Central de Restaurantes). Unfortunately, to date, these three have done very little importing from the United States because of prices. However, some examples of high priced imported products with good opportunities include, tuna, rice, oil, palm hearts, crackers, cheese and other dairy products, cookies and pasta. With export pricing designed to offer discounts on the unit sizes intended for institutional use, these companies would be interested in U.S. products.

The three leading companies are: Compass Catering S.A. has the contract for the military, schools, and state programs, including some hospitals and jails. Therefore they are particularly interested in products that can meet the special price and nutritional requirements of their customers. They do not direct import, but work through a variety of brokers and importers. They serve approximately 260,000 meals a day and have a market share of approximately 20%.

Sodexho Chile, S.A. has operations in 66 countries with a regional director in Brazil. Consequently they have traditional ties to suppliers in Brazil, as well as Argentina. Price competitiveness is essential or targeting niche products not normally sourced from these two countries. Most imports are brought in through brokers. They service a wide range of private industries such as: mining, petroleum, construction, fisheries, forestry, textile, steel, auto, chemical, pharmaceutical, service companies, banks and supermarkets, hospitals, schools and government programs. They have a market share of approximately 21%.

Central de Restaurantes uses a large quantity of imports, particularly high value food items. However, they do not bring these products in directly, they use brokers and importers. Currently, most of the products they carry are from Latin American suppliers. They service mines, banks, airlines, tv channels/the press, private colleges, and hospitals and clinics. They do more than 200,000 meals a day and have a 30 percent market share.

Institutional food service is a good market for basic staples as opposed to the specialty foods demanded by the hotel and restaurant sub-sectors. The main imported foods in its purchasing program are legumes, beef, pork and rice.

The following foreign food imports are in the highest demand in the restaurant and hotel sectors: sauces and spices, specialty rice varieties, frozen pre-processed French fried potatoes, frozen and dried legumes, cheeses, hams frozen fruits and vegetables, beef cuts and liquors.

Travel and tourism

Growth in international tourist arrivals is likely to remain strong over the forecast period as world economic growth picks up and the Argentinian peso recovers. Chile will continue to focus on attracting long-haul tourists, and this effort will receive more resources as the government seeks to honor its pledge to double tourism's share of GDP to 10% by 2010.

Chile’s natural beauty and its good infrastructure is attracting a growing number of international conventions. The country is already the second-largest organizer of such events in South America, after Brazil, but its world share is still small.

Business travel will also expand as a result of Santiago’s growing importance as a South American business centre. Over 40 multinational companies have established their regional headquarters in Chile since the country launched its investment platform program in 2003. This program includes mechanisms to avoid double taxation. With international flight occupancy rates recovering to around 70%, the airlines serving Chile will continue to increase frequencies and destinations. Lan in particular is planning to expand its operations in Asia to reflect increasing commercial links between Chile and China, Japan and South Korea.

Foreign tourist arrivals rose by 10.6% to 1.79 millions in 2004. Dollar revenue from international tourism rose even more rapidly, owing to the appreciation of the Chilean peso and a rise in arrivals of higher-spending long-haul tourists in the period. The result was a record-high US$1.25 billions in revenue, according to Sernatur. The overall rise in earnings and arrivals reflects the increasing importance of long-haul tourism, which has been aggressively promoted in recent years in order to offset low tourism demand from within the region. From 23% of the total in 2000, the number of visitors from Europe and North

America rose to 31% of the total in 2004. Growth has been particularly strong in the UK (76% over 2000-04), Mexico (75%), Germany (34%), Spain (39%) and the US (24%).

Chilean tourist attractions as the Antarctica, have become the favorite destiny of international cruise lines. The arrival of cruise lines have increased during the past years and the tourist authorities hope that Chilean destinations become one of the most important of the South Pacific. Only in six years the number of passengers have increased 500%.

Even if Argentina, Brazil and Chile only represent arround 1.3% of the worlds' cruise lines profit, profit still stands around US$ 325 million during a season that goes between October and April of 2005. The tourist sector has shown a growth rate of 8% since 2002 and it is believed it will reach 10% by 2005. In 2004, the cruise line industry will be around US$ 25 billion. Iquique , Arica, Antofagasta, Coquimbo, Valparaiso and Puerto Montt are the Chilean ports that receive the cruise ships. According to the Regional Chamber of Commerce and Production of Valparaiso, about 73,000 passengers will pass through the 5th Region this season. Approximately 78% of these visitors are from the U.S. and U.K. of which the average age is 58 and their average expenditure is US$ 65 on transport, food, and entertainment, an amount that is expected to grow this year by about 20%.

In Chile, the most frequented destinations are Patagonia, the Lake Region, Atacama, Valparaiso, Easter Island and Santiago. Considerable growth is expected considering that only 16% of Americans have traveled on these cruise ships and the polls show that in the next three years 27 million Americans will use them. Great opportunities exist to supply this growth sector with premium products. The high percentage of U.S. travelers bodes well for brands and product formulations familiar to U.S. consumers.

Retail Sector

Chile has a modern, highly competitive supermarket sector. Chile's supermarket industry reported sales of $5.1 billion in 2004. The sales forecast for 2005 is $5.4 billion (7% sales growth). The market for consumer-ready food products and imports is concentrated in the Santiago where both population density and higher incomes create 40% of consumer demand. Supermarkets, i.e., stores with 3 or more check-outs, serve about 58% of the grocery market and number about 688. Traditional neighborhood mini-markets, beverage stores, vegetable stands, etc. serve about 23% of the market and number about 90,000. Convenience stores, gas marts and kiosks sell limited quantities of imported candy and snack foods. In general, they do not import, but purchase from local wholesalers/distributors. The average gas mart has an area of 100-150 m2 and sells around $600,000 annually. Gas mart profit margins are reportedly about 10% on sales, about double that of supermarkets. However, the introduction of hypermarkets and larger supermarkets is reshaping the industry. These stores now account for 20% of total sales, offering customers fresh bakery goods, delicatessen items, fresh seafood, coffee bars, prepared salads, pizzas and meat dishes, in addition to fresh, frozen and dry grocery products. Warehouse outlets and wholesale clubs have not yet made an appearance. About 10-15% of products sold in supermarkets are imported, but this segment has grown by 85% over the last five years. The industry is dominated by Chilean-owned chains, which are aggressively competing with each other for market share. The two largest player in the market, D&S and Jumbo account for 58% of sales in Chile. The D&S chain, Chile's largest has 31 hypermarkets (7 formerly Carrefour) and 47 supermarkets, while Cencosud (Jumbo) has 12 hypermarkets and 77 grocery stores (formerly Santa Isabel, Las Brisas and Montecarlo) in it's network. Both also have interests in neighboring countries.

Supermarkets have moved far beyond their original niches (upper-income, highly populated areas) and have spread to the middle and working-class market segments, both in the capital and in medium-sized cities and towns throughout Chile. The chains are managed professionally, and the selection of food is as varied in scope to the choice of products found in the US. All stores have incorporated cutting-edge technology such as electronic price marking devices and specialized weighing systems. Generally, hypermarkets and supermarkets maintain a relatively high standard of hygiene with cold counters for meat, fish, produce and dairy products.

The U.S.-Chile FTA has prompted new interest in U.S. products and opened new opportunities for previously prohibited products, such as red meat, certain fresh fruits, and dairy products. The following foreign food imports are in the highest demand: snack foods, including high energy nutritional snacks for sports; frozen prepared dinner entrees and frozen bread products; dairy products, fresh and frozen, such as yogurt and specialty drinks; processed meats, sardines and tuna; dietetic snacks and candies; baked goods and mixes; sweets, gums and chocolates; and specialty pet foods (other than dry dog food).

There are important differences between the products carried by both hypermarkets and supermarkets in the low versus mid to high socio-economic segments. The stores located in low-income areas normally carry a limited number of specialty items (usually higher-priced imported goods), apart from the items destined for massive consumption. Hypermarkets and supermarkets in the mid to high-income areas carry a varied assortment of specialty items with a relatively high degree of imported products. A rise in consumer sophistication in the mid to high socio-economic areas, in terms of products, brands and price, has resulted in increased demand for imported food products. Nevertheless, despite the increasing selection of products and advances made in the super and hypermarket sector as a whole, compared to the US, the selection of specialty imported products is still limited.

IV. Best High-Value Product Prospects

The following are best prospects by import sector:

Ingredients for the following food processing sectors:
1. Dairy
2. Bakery products
3. Snacks
4. Processed meats

Institutional food service:
1. Tuna
2. Rice
3. Oil
4. Canned vegetables
5. Deli meats
6. Cheese and other dairy products
7. Low Carb products
8. Pre-mix sauces

Tourism / Airlines / Cruise lines:
1. Premium meats and Cheeses
2. Snack foods
3. Bakery items
4. Premium wines and alcohols

Retail:
1. Snack foods, including high energy nutritional snacks for sports.
2. Frozen prepared dinner entrees and frozen bread products.
3. Dairy products, fresh and frozen, such as yogurt and specialty drinks
4. Processed meats, sardines, tuna
5. Dietetic snacks and candies
6. Baked goods and mixes
7. Sweets, gum, chocolates
8. Specialty pet foods (other than dry dog food).

In the first six months of 2005, the following U.S. products have shown an increase in exports to Chile:

1. Soybean meal (15,748%)
2. Fresh Vegetables (1435%)
3. Fish eggs (330%)
4. Coffee/Tea (160%)
5. Chocolates & Chocolate preparations (160%)
6. Dairy (125%): like cheese
7. Miscellaneous Food (90%): like ice cream and soups
8. Prepared meat (49%)
9. Nuts (46%)
10. Frozen Red meat. (37%)

V. Key Contacts and Further Information

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Web Sites: **http://www.usembassy.cl**
U.S. Embassy Santiago homepage. Click on *"Food and Agricultural Affairs* " for research reports, statistics, and contacts in Chile.

Technical Reports:

Food and Agricultural Import Regulations and Standards (FAIRS) Report, dated 2005, is available on both the U.S. Embassy and the FAS websites.

Chile's Food Safety Regulations are available in Spanish (official) and English (unofficial translation) on the U.S. Embassy website.

Retail Food Sector report, dated October 2003, is available on both the U.S. Embassy and the FAS websites, the updated version will be posted in October 2005

HRI Food Service Sector report, dated October 2003, is available on both the U.S. Embassy and the FAS website, the updated version will be posted in October 2005

Pet Food Brief, dated June 2004, is available on both the U.S. Embassy and the FAS websites.

Cheese and Dairy Product Brief, dated January 2005, is available on both the U.S. Embassy and the FAS websites

Table A. Key Trade & Demographic Information*

Agricultural Imports From All Countries ($Mil)/U.S. Market Share (%)	2004	2,508/9
Consumer Food Imports From All Countries ($Mil)/U.S. Market Share (%)	2004	1775/7
Edible Fishery Imports From All Countries ($Mil)/U.S. Market Share(%)	2004	90.19/10
Total Population (Millions)/Annual Growth Rate (%)*	2004	16.2/1
Urban Population (Millions)/Annual Growth Rate (%)*	2004	13.1/1.5
Number of Major Metropolitan Areas 1/	2004	3
Size of the Middle and Upper Classes (Millions)/Growth Rate (%) 2/	2004	6.0/20
Per Capita Gross Domestic Product (U.S. Dollars)	2004	6,000
Unemployment Rate (%)	2004	8.8
Annual Food Expenditures Per Household in Santiago (U.S. Dollars)	2004	224
Average Exchange Rate (US$1= pesos)	2004	605

1/Population in excess of 1,000,000
2/Family income more than US$12,000
* Estimated from 2002 Census